

Lehman Brothers Stock Award Program

LEHMAN BROTHERS

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Contents

The 1994 Stock Award Program at a Glance	2
How the Stock Award Program Works	3
The 1994 Award Schedule	6
Calculating Your 1994 Award	7
What Happens When – Time Line	8
Tax Treatment of Restricted Stock Units	9
If Your Employment Ends	10
Other Information	12

*This brochure describes significant features of the Lehman Brothers Stock Award Program for 1994.
It is not intended to replace official plan documents, and should not be considered a legal document.
This brochure should be read in conjunction with the other documents enclosed.*

1994 Stock Award Program at a Glance

- ◆ All bonus-eligible members of the Firm receive a portion of their compensation in restricted stock units (RSUs). Each RSU represents the right to receive one share of Lehman Brothers common stock five years after the RSU is granted.
- ◆ RSUs have been awarded to you as part of your 1994 bonus payable for the year's performance. The portion of compensation paid in RSUs increases as the amount of your total compensation rises. (For 1994, members of the Firm whose total 1993 compensation was \$75,000 or less received a one-time grant of 50 RSUs.)
- ◆ For members of the Firm whose total compensation was greater than \$75,000, your 1994 RSU award was determined by dividing the portion of your bonus paid through the Stock Award Program by \$12 (reflecting the \$15 per share closing price of Lehman Brothers stock on June 30, 1994, less a 20 percent discount provided by the Firm).
- ◆ Five years after the 1994 RSUs are awarded, the restriction period will end, and your vested RSUs will convert to Lehman Brothers common stock. Once your RSUs convert to common stock, you may continue to hold the shares or sell them, subject to any compliance restrictions on employees trading Lehman Brothers stock. The RSUs cannot be sold before conversion.

*The enclosed Personal
Award Statement details
your July 1994 award.*

How the Stock Award Program Works

The Stock Award Program provides every member of Lehman Brothers with an ownership interest in the Firm, and requires us to hold that stake for at least five years. In doing so, the Program gives each of us an incentive to think and act like an owner every day, and allows all of us to share in the Firm's financial success over time.

For 1994, salaried, bonus-eligible employees received an award of Restricted Stock Units (RSUs) as part of their 1994 bonuses, the balance of which will be paid in early 1995. Each 1994 RSU represents the right to receive one share of Lehman Brothers common stock five years after the July 1, 1994 grant date. You can consider the RSUs as shares of Lehman Brothers common stock that the Firm holds on your behalf for five years. The RSUs cannot be sold, traded, or pledged, and they have no voting rights for that five-year period.

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The Size of Your Award

The enclosed Personal Award Statement describes your participation in the Program and specifies your 1994 award. The amount of each individual's award is determined according to a schedule that specifies the awards granted at each level of compensation. Under this schedule, the portion of compensation paid in the form of RSUs increases as total compensation increases. Thus, more highly compensated members of the Firm have a greater percentage of their compensation paid through the Program.

If you joined the Firm before 1994, your award is based on your 1993 total compensation. Under the Program, 1993 total compensation includes annual base salary as of December 31, 1993, plus any additional compensation for your performance in calendar year 1993, even if some of these payments were deferred or paid in 1994. Such compensation includes cashflow and sales points payments, commissions, bankers'/broker fees and salary supplements. If you joined the Firm between January 1 and June 30, 1994, your total compensation for the purpose of calculating your 1994 award is your annual base salary as of July 1, 1994, plus any applicable 1994 guaranteed bonus amounts.

For 1994, bonus-eligible members of the Firm whose total compensation was \$75,000 or less did not have any of their 1994 bonus paid in RSUs but instead received a one-time grant of 50 RSUs from Lehman Brothers. Starting in 1995, these members of the Firm, like all bonus-eligible employees, will receive a portion of their bonuses in RSUs.

The Firm-Provided Discount

In 1994, the number of RSUs you received was based on the closing price of Lehman Brothers common stock on June 30, 1994 (\$15 per share), less a 20 percent discount provided by the Firm. The net effect of the 20 percent discount is that you received 25 percent more RSUs – and, eventually, will receive 25 percent more stock – than you would without the discount.

The number of 1994 RSUs

you received reflects a

20 percent discount

provided by the Firm.

For example, if the portion of your 1994 bonus paid in RSUs had been \$1,500, without the discount you would have received 100 RSUs (\$1,500 divided by the \$15 share price on June 30, 1994). Taking the discount into consideration, you would have received 125 RSUs (\$1,500 divided by the \$12 discounted price).

Vesting and Conversion

For RSUs awarded as a portion of your 1994 bonus, you vest in two stages:

- ◆ Eighty percent of your RSUs (excluding any fractional units) vest one year after the July 1, 1994 grant date. This means that you have a nonforfeitable right to 80 percent of the RSUs as of that date, though the Firm still continues to hold them on your behalf.
- ◆ The remaining 20 percent of your RSUs vest five years after the July 1, 1994 grant date, at which time the restriction period ends and the RSUs convert to common stock. These units are the additional RSUs received as a result of the discount provided by the Firm.

Continuing the previous example, 100 of your RSUs (80 percent of 125) would vest on July 1, 1995. The remaining 25 RSUs would vest on July 1, 1999.

The 1994 RSUs granted to members of the Firm whose total compensation was \$75,000 or less will vest on July 1, 1997, three years after being granted.

All vested 1994 RSUs will convert to Lehman Brothers common stock on July 1, 1999.

The section on page 10, *If Your Employment Ends*, explains how your RSUs may be affected if you leave Lehman Brothers, including the circumstances under which you may forfeit your right to any unvested RSUs.

Dividends

Dividends may be declared from time to time at the discretion of the Board of Directors. Until your RSUs convert to common stock, if dividends are declared you will receive dividend equivalents instead of dividends. (You will even receive dividend equivalents on your RSUs that have not vested.) These dividend equivalents will be paid to you in cash, for the same amount and at approximately the same time as dividends are paid to other shareholders. Dividend equivalents cannot be reinvested in RSUs.

All vested 1994 RSUs

will convert to

Lehman Brothers

common stock on

July 1, 1999.

The 1994 Award Schedule

The participation schedule for 1994 is listed below, followed by an example of the calculations.

Because the Firm is introducing the Program in the middle of 1994, the percentages and base amounts in this schedule are not as high as they will be in 1995. For 1995, these amounts and percentages are expected to be approximately twice what they are in the 1994 schedule.

The portion of compensation paid in RSUs increases as the amount of your total compensation rises.

<i>1993 Total Compensation Range</i>	<i>Portion of 1994 Performance Bonus Paid Through Stock Award Program</i>
\$0 - \$75,000	No advance; one-time grant of 50 RSUs
\$75,000 - \$100,000	1.0% of 1993 total compensation
\$100,000 - \$200,000	\$1,000 plus 3.0% of 1993 total compensation over \$100,000
\$200,000 - \$300,000	\$4,000 plus 5.0% of 1993 total compensation over \$200,000
\$300,000 - \$500,000	\$9,000 plus 7.5% of 1993 total compensation over \$300,000
\$500,000 - \$750,000	\$24,000 plus 10.0% of 1993 total compensation over \$500,000
\$750,000 - \$1,000,000	\$49,000 plus 12.5% of 1993 total compensation over \$750,000
\$1,000,000 - \$1,500,000	\$80,250 plus 15.0% of 1993 total compensations over \$1.0 million
\$1,500,000 - \$2,000,000	\$155,250 plus 17.5% of 1993 total compensation over \$1.5 million

Calculating Your 1994 Award (if your 1993 total compensation was greater than \$75,000)

Step	Instructions	Sample Calculation	Sample Result
Step 1	Start by finding your 1993 total compensation, listed on your Personal Award Statement. As an example, we'll go through the calculations for an employee whose 1993 total compensation was \$150,000.	Not Applicable	\$150,000
Step 2	Refer to the 1994 participation schedule to find out how much of your 1994 bonus was paid in RSUs. According to the schedule, people with 1993 total compensation between \$100,000 and \$200,000 had \$1,000 plus 3% of their 1993 total compensation over \$100,000 paid in RSUs.	$\$1,000 + (3\% \times \$50,000)$	\$2,500
Step 3	The next step is to figure out how many RSUs were awarded to you. Divide the result from step 2 by \$12 (which represents the \$15 closing price of Lehman Brothers stock on June 30, 1994, less the Firm-provided 20% discount). This employee's 1994 award is 208 RSUs. (No fractional RSUs are awarded.)	$\$2,500 \div \12	208 RSUs
Step 4	To calculate the value of your 1994 RSUs on the grant date, multiply the number of RSUs by the stock price on June 30, 1994, which was \$15.	$\$15 \times 208$	\$3,120
Step 5	Eighty percent of the 208 1994 RSUs will vest July 1, 1995. Only whole units can vest, so you have to round down any fractions. The Firm will continue to hold these RSUs until they convert to common stock.	$80\% \times 208$	166 RSUs vest 7/1/95
Step 6	On July 1, 1999, the other 42 RSUs (received because of the Firm-provided 20% price discount) will vest. Also, all the RSUs awarded in 1994 will convert one-for-one into shares of common stock.	$208 - 166$	42 RSUs vest 7/1/99; All 208 RSUs convert to shares on 7/1/99

This example applies for members of the Firm whose employment continues through the end of the restriction period. See the section *If Your Employment Ends* for information on how your RSUs may be affected if you leave the Firm.

What Happens When – Time Line

- ◆ July 1, 1994 (the 1994 grant date): You are awarded your 1994 RSUs, either as part of your 1994 performance bonus or as a one-time grant.
- ◆ Early 1995: You receive the remainder of your cash bonus for 1994 performance.
- ◆ July 1, 1995: Eighty percent of the 1994 RSUs vest, for those members of the Firm whose RSUs were awarded as part of their bonuses.
- ◆ July 1, 1997: 1994 RSUs awarded as a one-time grant to members of the Firm earning \$75,000 or less vest.
- ◆ July 1, 1999: The remaining 20 percent of 1994 RSUs awarded as part of 1994 bonuses vest. At this time, all 1994 RSUs (including those granted to bonus-eligible members of the Firm with compensation of \$75,000 or less) convert to shares of common stock.

This time line applies for members of the Firm whose employment continues through the end of the restriction period. See the section *If Your Employment Ends* for information on how your RSUs may be affected if you leave Lehman Brothers.

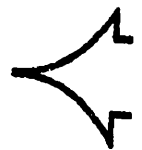
Tax Treatment of Restricted Stock Units

Under current tax regulations, you will not be taxed on the value of your RSUs until they convert to common stock, except for FICA (Social Security) taxes due when the RSUs vest. As a result, your RSUs appreciate on a pre-tax basis for the five-year restriction period. (For members of the Firm whose employment status changes, special provisions apply. Please see the following section.)

Here is a summary of the taxes that are ultimately due under current tax law:

*Your RSUs appreciate on
a pre-tax basis for the
five-year restriction period.*

- ◆ At the time the RSUs are awarded, there is no taxable event.
- ◆ When your RSUs vest, you will owe FICA tax on their value. The value of the RSUs subject to the FICA tax will be the number of units vesting multiplied by the price of Lehman Brothers common stock on the date the units vest.
- ◆ After the restriction period for 1994 RSUs ends, on July 1, 1999, your RSUs convert to common stock. Ordinary income equal to the July 1, 1999 market value of your shares will be reported to the IRS, and you will be subject to tax withholding on this amount. Since the receipt of these shares is treated as compensation paid to you, ordinary income tax rates apply, rather than the special provisions dealing with capital gains.
- ◆ On July 1, 1999, when your 1994 RSUs convert to common stock, your cost basis for tax purposes will equal the market value of your shares that day. Any subsequent increases in value will be taxed as capital gains when the stock is sold. If the stock price is lower when you sell than it was when the RSUs converted, you will have a capital loss to declare.



- ◆ Any dividend equivalents that you receive from your RSUs will be treated as compensation and taxed as ordinary income when paid, subject to withholding. Dividends that you receive after the RSUs convert to common stock will be treated as dividend income, not subject to withholding.

If Your Employment Ends

If your employment with the Firm ends before July 1, 1999, the disposition of your 1994 RSUs will be determined by when you leave, why you leave, and your conduct with respect to Lehman Brothers after you leave. Depending on these factors, you may forfeit your rights to any 1994 RSUs that have not vested.

When You Leave

- ◆ If you leave before 1994 bonuses are paid, *for any reason*, all 1994 RSUs will be forfeited.
- ◆ If you leave after 1994 bonuses are paid but before the vesting dates for 1994 RSUs, unvested 1994 RSUs may continue to vest, depending on why you leave the Firm and your conduct with respect to the Firm after you leave, as described below.

Why You Leave

- ◆ If you leave voluntarily after 1994 bonuses have been paid, the Firm will continue to hold your unvested 1994 RSUs, and they will continue to vest according to the schedule described previously, provided you do not go to work for a competitor of Lehman Brothers. If you go to work for a competitor, any unvested RSUs will be forfeited immediately.
- ◆ If you are terminated involuntarily but without cause after 1994 bonuses are paid, the Firm will continue to hold your unvested 1994 RSUs, and they will continue to vest according to the schedule described previously, provided your conduct with respect to Lehman Brothers does not violate the provisions that follow.

- ◆ If you are terminated involuntarily with cause, any unvested RSUs will be forfeited immediately upon termination.
- ◆ If you die, retire, or become disabled (as defined in the Award Agreement) after 1994 bonuses are paid, all unvested RSUs will vest immediately, convert to Lehman Brothers common stock, and be paid to you or your estate following the date your employment ends. Ordinary income equal to the market value of your shares on the conversion date will be reported to the IRS, and you or your estate will be subject to tax withholding on this amount.

Your Conduct With Respect to Lehman Brothers After You Leave

You will forfeit your unvested RSUs if you leave the Firm and then:

- ◆ Use confidential information that you learned while employed at Lehman Brothers
- ◆ Attempt to solicit other Lehman Brothers employees to leave the Firm, or
- ◆ Engage in activities that are otherwise detrimental to the Firm.

Other Information

In the event of any conflict between the provisions of the Program and the information in this brochure, the official documents will govern.

Nothing in this brochure or the Program documents shall be construed to create or imply any contract of employment between you and Lehman Brothers.

All references to taxation in this brochure refer to U.S. Federal taxes and current tax law. You should consult your local tax authorities or personal tax consultant for details on the impact of tax laws in effect at the time your benefits become taxable.

If you have any questions about the Program in general, about your Personal Statement, or about your Award Agreement, call the Compensation Department, at 212/526-5126.